Agricultural Economic Report No. 211

Rural Homeowners' Use of Home Mortgage Credit in the Ozark Region, 1966

U.S. DEPARTMENT OF AGRICULTURE
Economic Research Service in cooperation with Arkansas Agricultural Experiment Station,
University of Arkansas

ABSTRACT

Of the sample of rural homeowners in the Ozark Region in 1966, less than half had ever mortgaged their property. However, those who had mortgaged occupied significantly higher quality housing than those who had not. The trend in the region is toward greater use of credit to finance home purchases. The study strongly indicates that rural home buyers have limited access to long-term, low-equity, amortized loans. Most loans were made by local banks, individuals, and a wide assortment of minor lenders; rural lending activity of savings and loan associations and life insurance companies was limited. Very little evidence was found that conventional lenders bring about inflows of home mortgage credit by initiating Government-backed mortgages for sale to Government agencies or major purchasers of home mortgages. Half of all loans were for less than $5,500. The higher the income and the more years of schooling a household head had the more likely he was to obtain a desirable type of home mortgage credit loan. Age of household head also affected desire and ability to get credit.

KEY WORDS: Credit, credit institutions, home mortgages, loans, rural housing, Arkansas, Missouri, Oklahoma.

Washington, D.C. 20250 August 1971

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C., 20402

(F)

PREFACE

This is the last of three research reports on housing conditions in rural areas of the Ozark Region, an area with a history of a high incidence of under-employed and unemployed persons, low income, and poorly housed households that are scattered over a large, sparsely settled, rural area. The first report presented the status of housing in 1966, the changes that occurred in the 1950's and in 1960-66, and the estimated cost of bringing rural housing up to various levels of adequacy.* The second publication reported on selected characteristics of housing units and of household occupants that seem likely to affect housing quality.**

The purposes of this report are to show the importance of credit in improving the quality of housing, the sources of credit used, who used credit, and how credit use before 1967 influenced the quality of housing. The period prior to 1967 was used because of the easier credit terms that existed then. Findings in the second report indicated that increasing income and education may, in the long run, lead to the removal of most substandard housing. In the short run, however, it appears that investment in housing through expanded use of home mortgage credit offers the most promise of achieving a substantial increase in rural housing that meets minimum housing standards.

---

*Hughes H. Spurlock, _Rural Housing Conditions in the Arkansas, Missouri, and Oklahoma Ozarks_, Ark. Agr. Expt. Sta. Bul. 736, Dec. 1968.

**Hughes H. Spurlock, _Rural Housing Quality in the Ozark Region as Related to Characteristics of Housing Units and Occupants_, Ark. Agr. Expt. Sta. Bul. 758, June, 1970.

CONTENTS

HIGHLIGHTS

Less than half the 1,073 rural homeowners surveyed in the Ozark Region in 1966 had ever mortgaged their present property. However, those who had mortgages occupied significantly higher quality, newer, and more valuable housing, sometimes equipped with complete plumbing facilities, central heat, and air conditioning.

The trend in the region is toward greater use of mortgage credit to finance home purchases. About two-thirds of the homeowners purchasing their house and lot or house and land in 1960-66 had used mortgage financing, compared with only one-third for purchases made before 1950. Also, the loan-to-purchase-price ratio--the proportion that a loan is of the purchase price--increased from 47 percent prior to 1950 to 72 percent for 1960-66.

However, it appears that would-be rural home buyers in the region have relatively limited access to long-term, low-equity, amortized loans. Life insurance companies, mutual savings banks, and mortgage brokers showed negligible lending activity in the rural areas of the region. The effect of this is to isolate the region from some of the large "pools of credit." Savings and loan associations, by far the leading source of home mortgage credit in the Nation, were somewhat more active, but they provided only 17 percent of the loans in 1960-66 and these went primarily to the economically better off families and to buyers of newer and higher priced nonfarm homes.

Little evidence was found that such conventional lenders as local banks and savings and loan associations helped bring about inflows of home mortgage credit by initiating Government-backed mortgages for sale to Government agencies or major purchasers of home mortgages.

By either preference or necessity, home buyers turned to local banks, individuals, and a wide assortment of other lenders for 72 percent of their home mortgage loans. The Veterans Administration and the Farmers Home Administration made 9 percent of the home mortgage loans. Except for Government agencies, the types of lenders patronized most often are generally not in a position to handle a high volume of the long-term loans needed in buying a house.

Half of all loans were for less than $5,500. Although the loan-to-sale-price ratio averaged 72 percent among all lenders, the ratio was 63 percent for home buyers borrowing from a local bank. Banks and individuals, however, made a high percentage of their loans to owners of low-value or older housing, and to low-income families.

The lowest net income group--below $2,000--showed the highest loan-to-income ratio (144 percent). Most families made monthly mortgage payments of $30 to $89. The market value of the house and land and the age of the structure affected the ability of the owner to borrow. Farm and nonfarm locations did not appear to affect borrowing, except that farmers borrowed larger amounts and few farmers obtained loans from savings and loan associations. The higher income and the more years of schooling a household head had, the more likely he was to obtain longer term home mortgage credit loans. Age was also a factor in the use of credit. Financing of housing through the use of mortgage credit was more common among young and middle-aged household heads than among older ones.

RURAL HOMEOWNERS' USE OF HOME MORTGAGE CREDIT IN THE OZARK REGION, 1966

by

Hughes H. Spurlock 1/
Economic Development Division
Economic Research Service

INTRODUCTION

The 1960 Census of Housing showed that rural households in the Ozark Region had a much higher incidence of substandard housing than their urban counterparts. Fifty-four percent of the rural housing in the region was substandard, compared with only 15 percent of the urban housing. This unfavorable contrast between rural and urban housing has also been documented at the national level. 2/

Why is the incidence of substandard housing greater among rural households? This question has no simple answer. Differences in rural households' and urban households' ability and willingness to obtain and use home mortgage credit are believed to hold part of the answer. This conclusion takes into account the fact that most families, even in the more prosperous parts of the Nation, need to borrow much of the money required to purchase a home or to make major home improvements in existing structures.

From the standpoint of the supply of housing, the building industry depends heavily on borrowed funds for operation during construction and for a ready sale of finished and existing housing. Historically, the critical nature of credit in home construction and sales shows clearly in the repressive effects on the home building industry and housing starts of temporary tight-money policies that have been imposed to dampen demand and control inflation.

Since World War II, however, long-term home mortgage credit has generally been available in many years at reasonable interest rates and with relatively low downpayments (high loan-to-price ratios), making it possible for millions of moderate- and middle-income families in the Nation to become owners of modern homes. While Federal housing programs have not solved all the problems in home mortgage credit needs, direct and insured loans have helped bring about an increased supply of total loanable funds going into housing.

The Federal approach to the housing problem, which depends primarily on easy and ample credit, has proved most effective in areas where high wages and steady jobs are available, especially in and around urban centers, and where

---

1/ Agricultural Economist, Economic Development Division, Economic Research Service, U.S. Department of Agriculture, stationed at the University of Arkansas.

2/ Ronald Bird and others, Status of Rural Housing in the United States, U.S. Dept. Agr., Agr. Econ. Rpt. No. 144, Sept. 1968.

home mortgage funds are relatively more plentiful. One desirable effect of large loans and small downpayments as a means of acquiring good housing is that young parents, getting started in life, can often obtain adequate housing when children are at home and the need for housing with adequate space and of good quality is pressing. But how well has this approach worked in underdeveloped rural areas where high-wage jobs are scarce, employment is often unstable, incomes are low, and loanable funds are far more limited?

A number of studies on rural home mortgage credit have been made in various parts of the country. These studies show that rural households, well removed from financial centers, are at a disadvantage in competing for home mortgage credit. 3/ Mortgage credit is often less available and more expensive than in urban areas. The study reported here, however, was made in an officially designated low-income area, where economic and social conditions are depressed; thus, conclusions reached may not apply to other rural areas.

PURPOSE OF THE STUDY

The general objective of this study was to determine the importance of home mortgage credit in improving rural housing in the Ozark Region. More specific objectives were to (1) determine to what extent rural residents have used mortgage financing and whether the use of mortgage financing has improved the quality of housing; (2) identify the sources of borrowed capital; and (3) ascertain the use of mortgage financing among rural households having differing socioeconomic characteristics.

SOURCE OF DATA

The primary source of data used was a survey of 1,413 households conducted in 1966 by the Economic Research Service in cooperation with the Universities of Arkansas and Missouri. The study area included the 125 counties that made up the Ozark Region when the survey was taken, located in or near the Ozark and Ouachita Mountain areas of Arkansas, Missouri, and Oklahoma. 4/ Of the 125 counties included in the designated area, 44 counties are in Arkansas, 44 in Missouri, and 37 in Oklahoma. 5/

The survey provides a general descriptive profile on the use of home mortgage credit by rural homeowners in the region, from which some inferences can be drawn. For ease in analysis, the data on home mortgage credit were grouped into three categories stratified by year of home purchase. The three groupings were 1960 to 1966, 1950 to 1959, and 1949 and earlier. A total of 1,073 respondents of the 1,413 surveyed were rural homeowners or were buying homes. However, 48 schedules did not contain complete information for the

---

3/ Robert E. Freeman, *Rural Housing: Trends and Prospects*, U.S. Dept. Agr., Agr. Econ. Rpt. No. 193, Sept. 1970.

4/ Herbert Hoover and Bernal L. Green, *Human Resources in the Ozark Region with Emphasis on the Poor*, U.S. Dept. Agr., Agr. Econ. Rpt. No. 182, May 1970.

5/ Nine counties in southeast Kansas became a part of the region after the field interviews were completed. Thus, the Kansas counties were not included in the studies.

home mortgage credit analysis. Consequently, these schedules were deleted, reducing the number of usable schedules to 1,025. Of those remaining, 461 homeowners--45 percent--reported the use of home mortgage credit. Among the homeowners purchasing a house and land in 1960-66, 227 respondents (62 percent) borrowed funds secured by a lien on the house and land. Since 1960-66 represented an "easy" credit period, and conventional lending was relatively dominant in the housing market, the study focused on that period except where otherwise indicated.

The survey obtained information on many household characteristics related to economic development and the level of living. Housing was but one of five major topics in the schedule. Inquiries relating to home financing were necessarily kept to a minimum to reduce interviewing time. Also, information on borrowed funds for repairs and remodeling was not obtained unless the loans were secured by a mortgage on the house and land. Small short-term loans taken out for home improvements are not apt to require a real estate mortgage. Hence, the study understates the extent of short-time borrowing as a means of improving housing quality. But it includes major outlays where a mortgage was necessary on rural housing repair in the region.

CHANGES AND TRENDS IN THE USE OF HOME MORTGAGE CREDIT BY RURAL HOMEOWNERS IN THE OZARK REGION

The percentage of rural Ozark homeowners who borrowed money to purchase houses and land increased sharply in the 1950's and especially in the first half of the 1960's compared with 1949 and earlier years. Only about one-third of the 125 homeowners purchasing house and lot or house and land in 1949 and earlier years borrowed money and mortgaged the property. About two of every five purchasers used home mortgage financing in 1950-59, and the proportion reached 62 percent in 1960-66 (table 1).

Table 1.--Use of mortgage credit among rural Ozark homeowners by year of purchase

Item	Year of purchase							
	1960-66		1950-59		1949 & earlier		Total	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Without mortgage	142	38	152	59	252	67	1/ 546	53
With mortgage...	227	62	106	41	125	33	548	47
Total........	369	100	258	100	377	100	2/ 1,004	100
Loan-to-purchase price ratio....	72		64		47		66	
Paid-up mortgage	17	3/ 7	42	3/ 40	99	3/ 79	158	3/ 34

1/ Includes 66 homeowners who reported they acquired their property by paying less than $100 for it (possibly an inheritance or gift from parents or relatives).

2/ Excludes 21 homeowners who did not report year of purchase; 3 of these had a mortgage.

3/ Number with paid-up mortgages divided by number with a mortgage.

The loan-to-price ratios also showed a strong upward trend. In 1960-66, the loans approached three-fourths of the original purchase price, reducing the downpayment or equity required to slightly more than one-fourth. In contrast, for purchases made in 1949 and earlier, the average borrower had to put down more than half of the purchase price in cash or owned equity. Over the period studied, therefore, the amount that borrowers paid down decreased from more than one-half to slightly over one-fourth of the purchase price of the property being financed. These declining ratios reflect the changing pattern toward increased reliance on borrowing a higher percentage of the purchase price for housing. In this respect, the trend among rural households in the region is consistent with what has happened in the Nation.

The percentage of home buyers in the region buying without mortgage financing remained high relative to the nationwide percentage through the first half of the 1960's. Nearly four of every 10 homes purchased in 1960-66 were bought without a mortgage. Moreover, this high percentage of homeowners not using mortgage credit occurred at a time when the Nation's economy was expanding rapidly, the supply of home mortgage credit was relatively plentiful, and interest rates had not yet moved up in response to tight money policies imposed in the second half of the 1960's to control inflation.

Detailed information on loan terms--interest rates and repayment periods--was not obtained in this survey. Of the mortgages negotiated in 1949 and earlier years, almost 80 percent had been paid in full and only about one of every five was still outstanding in 1966. Forty percent of the loans initiated in 1950-59 had been paid in full at the time of the survey in 1966. Seven percent of those obtained in 1960-66 had been paid. The percentage of loans obtained in the 1950's and early 1960's and already paid off suggests that many of them had relatively short maturity dates and were probably small loans. This is further suggested by the types of lenders, which are discussed later.

IMPORTANCE OF HOME MORTGAGE CREDIT

Did rural families in the region who had used mortgage credit occupy housing of significantly higher quality than that occupied by families who had not used this method of financing? Respondents in the rural areas of the region, who either owned or were buying a house, were asked whether they then had or had ever had a mortgage on their present home. Some 508 household heads, 47 percent of all homeowners, reported that their homes had been mortgaged or were currently mortgaged.

Household heads who had been willing to incur debt and had been able to obtain mortgage credit occupied significantly higher quality and more valuable housing than those who had not at any time mortgaged their house and land (table 2). Almost 69 percent of respondent homeowners who had used credit, secured by a mortgage on the house and land, occupied housing with complete plumbing, compared with 58 percent for households not using mortgage financing. Also, among families not using mortgage credit, over 13 percent had no inside plumbing, compared with less than 6 percent for households with mortgage financing. A significantly higher percentage of families using mortgage credit occupied housing with such quality attributes as central heat and air conditioning. Such families were also more likely to occupy newer housing, which generally is of higher quality than the older units. 6/

Table 2.--Use of mortgage financing among rural Ozark homeowners, by quality of plumbing, 1966

Use of mortgage financing	Homes with-- Complete plumbing 1/	Partial plumbing 2/	No plumbing	Total
	-Number-			
Have mortgaged property	349	131	28	508
Have not mortgaged property	328	163	74	565
				1,073
	-Percent-			
Have mortgaged property	68.7	25.8	5.5	100.0
Have not mortgaged property	58.0	28.8	13.1	100.0

1/ Complete plumbing denotes hot and cold running water, a bath or tub, and a flush toilet in the home; commercial water supply or a drilled well; and access to a public sewer or a septic tank.

2/ Partial plumbing denotes a home with at least one attribute listed under complete plumbing, but not all.

SELECTED FACTORS AFFECTING THE PROPENSITY OF RURAL HOUSEHOLD HEADS TO USE MORTGAGE CREDIT

Who can obtain a loan and who cannot? What characteristics of the house and landholdings enhance or hinder the buyer's or owner's ability to finance the property by borrowing? Similarly, what characteristics of household heads create a willingness and ability to obtain and use borrowed capital secured by a lien? To what type of lenders do household heads with various socio-economic characteristics turn when needing a loan and what is the response by the lender? What are the income and other characteristics of applicants to whom the various lenders most freely extend the needed credit? This section attempts to shed some light on the above questions.

Characteristics of Housing Units

Market Value of House and Land

Of the 227 homeowners purchasing house and land in 1960-66 and using mortgage financing, 39, or 17 percent, estimated the current value of their house and land at less than $5,000 in 1966 (table 3). Thirty-eight of the 77 respondents who had property valued at less than $5,000 had purchased their home without a mortgage. The median size loan for those 39 respondents paying less than $5,000 for their property in 1960-66 and using mortgage financing was $1,750. The loan-to-value ratio for this group was surprisingly high--87 percent (table 4).

6/ Hughes H. Spurlock, Rural Housing Quality in the Ozark Region, cited in preface.

Table 3.--Ozark rural homeowners purchasing a home in 1960-66 with and without a mortgage, by estimated value of house and land, 1966

Estimated value of house and land, 1966	Total purchases		With a mortgage		Without a mortgage	
	Number	Percent	Number	Percent	Number	Percent
Less than $5,000.....	77	21	39	17	38	27
$5,000 to $9,999.....	122	33	66	29	56	39
$10,000 to $14,999...	68	18	49	22	19	13
$15,000 to $19,999...	43	12	32	14	11	8
$20,000 to $24,999...	19	5	14	6	5	4
$25,000 and over.....	40	11	27	12	13	9
Total.............	369	100	227	100	142	100

In the rural areas of the region, about one of every three homes had a value of less than $5,000 in 1966. The buyers of these homes made far less use of mortgage credit than purchasers of more expensive properties.

All 39 borrowers with property valued below $5,000 obtained their loans from conventional lenders; 16 of them borrowed from banks, 13 from individuals, only two from savings and loan associations, and eight from sources listed as other lenders (table 5). None of the 39 respondents reported borrowing from a Government agency. Commercial banks and individuals showed a more even distribution of their loans over the various classes of property values than did savings and loan associations or Government agencies. This is not surprising because of the nature of the various lenders. The savings and loan associations and Government agencies concentrated their lending activities among families occupying properties valued at $5,000 and up, and on households with generally greater debt-carrying ability. Such families ordinarily can borrow larger amounts and receive longer terms to maturity. These are also

Table 4.--Rural Ozark home purchasers in 1960-66 using mortgage financing, median size of loan, and loan-to-price ratios, by estimated value of house and land, 1966

Estimated value of house and land, 1966	Homeowners using mortgage financing		Median size of loan	Loan-to-purchase-price ratio 1/
	Number	Percent 1/	Dollars	Percent
Less than $5,000.....	39	17	1,750	87
$5,000 to $9,999.....	66	29	4,125	80
$10,000 to $14,999...	49	22	6,500	73
$15,000 to $19,999...	32	14	9,500	79
$20,000 to $24,999...	14	6	8,850	79
$25,000 and over.....	27	12	14,500	60
Total	227	100	5,500	72

1/ Ratios computed for date of purchase, 1960-66.

Table 5.--Major sources of home mortgage credit among rural Ozark home purchasers, by market value of house and land, 1960-66

Market value of house and land, 1966	Conventional lenders				Government agencies		
	Commercial bank	Individual	Savings and loan assoc.	Other	Veterans Administration, direct	Farmers Home Administration, direct	Total
	Number						
Less than $5,000....	16	13	2	8	0	0	39
$5,000 to $9,999....	28	12	10	14	1	1	66
$10,000 to $14,999..	19	7	10	9	3	1	49
$15,000 to $19,999..	6	5	8	7	4	2	32
$20,000 to $24,999..	4	5	2	0	0	3	14
$25,000 and over....	8	4	6	5	3	1	27
Total...........	81	46	38	43	11	8	227
	Percent						
Less than $5,000....	20	28	5	19	0	0	17
$5,000 to $5,999....	35	26	26	33	9	13	29
$10,000 to $14,999..	23	15	26	21	27	13	22
$15,000 to $19,999..	7	11	21	16	36	25	14
$20,000 to $24,999..	5	11	5	0	0	38	6
$25,000 and over....	10	9	16	12	27	13	12
Total...........	100	100	100	100	100	100	100

families who are more likely to be able to afford to build or buy modern and adequate housing that offers better long-term future market potential. Such lending policies, however, bypass or exclude about one-third of the population.

Part of the explanation for this apparent failure of savings and loan associations and Government agencies to make loans to homeowners with the lowest valued property is that such housing is often old, not modern, inadequate for the family, and not considered to be good security for a long-term loan. Also, as mentioned previously, loans for home improvements not secured by a mortgage on the property are not included in this study.

Rural Nonfarm and Farm Locations

Households classified farm and nonfarm differed very little in the percentage of each group that used home mortgage financing in 1960-66. About 57 percent of the farm households reported the use of mortgage credit, compared with 62 percent of the rural nonfarm (table 6). Farm loans, however, were much larger than rural nonfarm loans. The median farm loan was $9,000, compared with $5,000 for rural nonfarm. Farm loans covered the residence as well as other farm buildings and agricultural land. The loan-to-price ratio was 75 percent for farm households, compared with 71 percent for the rural nonfarm group.

Table 6.--Rural Ozark home purchasers in 1960-66 using mortgage financing, median amounts of the mortgages, and loan-to-price ratios, by location of residence

Location of residence	Homeowners with a mortgage		Median amount of mortgage	Loan-to-price ratio
	Number	Percent	Dollars	Percent
Farm	32	1/ 57	9,000	75
Nonfarm	195	2/ 62	5,000	71
Total	227	62	5,500	72

1/ Equals 32 divided by 56, the total number of farmowners making purchases in 1960-66.

2/ Equals 195 divided by 313, the total number of nonfarm homeowners purchasing house and land in 1960-66.

Do rural farmpeople obtain their mortgage funds from different sources than rural nonfarm residents? Farmers more often borrowed from individuals than nonfarm families. About 38 percent of the loans obtained by farmers came from individuals (table 7). Farmers obtained only about 3 percent of their loans from savings and loan associations. Considering the importance of savings and loan institutions in the home mortgage credit field, the rarity in farm lending hurts farm families' chances for obtaining good long-term housing credit. This is partly offset, however, by farmers' access to Federal land bank associations and to the Farmers Home Administration--about 30 percent of the farmers in this area obtained their funds from these sources.

Table 7.--Major sources of home mortgage credit for rural Ozark home purchasers, by place of residence, 1960-66

Place of residence, 1966	Conventional lenders				Government agencies		
	Commercial bank	Individual	Savings and loan assoc.	Other	Veterans Administration	Farmers Home Administration	Total
	Number of loans						
Farm	9	12	1	5	2	3	32
Nonfarm	72	34	37	38	9	5	195
Total	81	46	38	43	11	8	227
	Percent						
Farm	11	26	3	12	18	38	14
Nonfarm	89	74	97	88	82	62	86
Total	100	100	100	100	100	100	100

Age of the Housing Unit

Only one-third of the housing in the 1,025-sample survey was constructed in 1950-66. About 57 percent of the home purchasers in 1960-66 used mortgage financing for homes built since 1949. Forty-three percent of the mortgage loans involved older housing, although two-thirds of all the housing in the sample was in this category (table 8).

Banks and individuals were the major lenders in providing mortgage funds for the older housing units. These units frequently were of lower quality, had lower market value, and carried a lower loan-to-price ratio, with shorter repayment periods than the more recently constructed homes. Seventy-five percent of the loans made by individuals were to purchase older housing. In part, this probably reflects sales where the seller carried the mortgage. Banks had 44 percent of their 81 loans on older housing. Banks and individuals together provided 72 percent of the mortgage loans to purchase older units.

Personal Characteristics of Homeowners

More and more, modern lending practices have come to take into account the personal characteristics of the borrower; that is,amount and source of income, whether income is steady and likely to continue, size of family, credit rating, and any other factor that makes the individual borrower appear to be a good risk for a long-term home mortgage loan. Basing the loan more on the individual's characteristics can lead to higher loan-to-price or loan-to-appraised-value ratios on the part of the lenders for the borrower considered to be credit-worthy.

Net Family Income

A sufficiently large and steady income earned by the male household head, more than any other factor, indicates to lenders whether an individual can make timely mortgage payments while meeting other essential family expenditures. One hundred and sixty homeowners--70 percent of the 227 respondents buying house and land in 1960-66--had less than $4,000 net family income in 1965. Thirty of these families (29 percent) had less than $2,000. Low-income families did not differ greatly in homeownership rates from the more affluent. But only about one in three of the low-income families, below $2,000 annually in 1965, had used mortgage financing. In contrast, about three of every four households with $4,000 and higher incomes had used home mortgage borrowing (table 9).

The percentage of respondents using home mortgage financing increases from the lower to the upper end of the income scale; the proportion increases especially sharply for the $4,000-$5,999 income group. The median size of the mortgage also increases as incomes rise. The loan-to-income ratio for the 227 borrowers using mortgage financing as a group was 118, reflecting a rather conservative lending policy during 1960-66. This ratio was highest, 144, for the lowest income group, but for all income levels it remained well below the 2.5 times annual income which has been cited as a rule of thumb as to how much a family can afford to pay for a home. That is, a household earning $6,000 would generally need to find a home priced at less than $15,000.

Table 8.--Major sources of home mortgage credit for rural Ozark home purchasers in 1960-66, by selected dates of construction

Date of construction	Conventional lenders: Commercial bank	Conventional lenders: Individual	Conventional lenders: Savings and loan assoc.	Conventional lenders: Other	Government agencies: Veterans Administration	Government agencies: Farmers Home Administration	Total
	Number						
1950-66	45	11	26	34	6	5	127
Before 1950	36	33	12	7	5	3	96
Total	81	44	38	41	11	8	1/ 223
	Percent						
1950-66	56	25	68	83	54	62	57
Before 1950	44	75	32	17	46	38	43
Total	100	100	100	100	100	100	100

1/ 4 borrowers did not report date of construction.

Table 9.--Median size of loan and loan-to-income ratios of rural Ozark home purchasers using mortgage credit, 1960-66, by net family income, 1965

Net family income, 1965	Homeowners using mortgage credit		Median size of loan	Loan-to-income ratio
	Number	Percent 1/	Dollars	Percent
Less than $2,000	20	30	2,650	144
$2,000 to $3,999	45	48	3,000	140
$4,000 to $5,999	52	78	5,250	115
$6,000 to $7,999	56	78	7,000	114
$8,000 to $9,999	23	82	7,800	91
$10,000 and over	31	74	11,000	114
Total	227	62	5,500	118

1/ Percentage of all households in each income class who had borrowed money secured by a lien on the property.

What types of lenders supplied loans to households at various levels of income? The 20 purchasers with less than $2,000 income borrowed exclusively from banks, individuals, and other conventional lenders (table 10). Apparently, low-income families not only use mortgage financing less than higher income families, but also use credit from fewer sources. Savings and loan associations and Government agencies, which generally make long-term, low-equity loans, made relatively few loans to low-income families. New legislation enacted since data for this study were obtained may have helped more low-and moderate-income families obtain home mortgage loans.

Household Size-Income Classes

Although a sufficiently large and steady income is an important factor considered by a lender in making a loan, the size of the family to be housed is also an important consideration. Hoover and Green used income deprivation classes based on household size and net family income (table 11). In their study, both family income and size of family were considered to give a more complete indication of the family's situation. The households classified as seriously deprived and deprived are expected to have difficulty in obtaining home financing. These categories included about one of every four families in the survey. Among the seriously deprived and deprived who purchased homes in 1960-66, slightly more than one-third had used mortgage financing; two-thirds had not. Three-fourths of households classified as definitely not deprived had used mortgage borrowing (table 12).

The median size loan for the 23 seriously deprived and deprived families was $3,000, compared with $7,000 for households in the definitely not deprived category. The loan-to-price ratio for the seriously deprived and deprived was 62 percent, compared with 74 percent for the definitely not deprived.

Banks, individuals, and finance companies provided the bulk of the loans to households at the lower end of the household size-income scale (table 13).

Table 10.--Major sources of home mortgage credit for rural Ozark home purchasers in 1960-66, by net family income, 1965

Net family income, 1965	Conventional lenders				Government agencies		
	Commercial bank	Individual	Savings and loan assoc.	Other	Veterans Administration	Farmers Home Administration	Total
	Number of loans						
Less than $2,000	7	7	0	6	0	0	20
$2,000 to $3,999	17	15	2	6	2	3	45
$4,000 to $5,999	23	6	7	12	3	1	52
$6,000 to $7,999	18	9	12	13	3	1	56
$8,000 to $9,999	8	3	7	3	1	1	23
$10,000 and over	8	6	10	3	2	2	31
Total	81	46	38	43	11	8	227
	Percent						
Less than $2,000	9	15	0	14	0	0	9
$2,000 to $3,999	21	33	5	14	18	38	20
$4,000 to $5,999	28	13	18	28	27	13	23
$6,000 to $7,999	22	20	32	30	27	13	25
$8,000 to $9,999	10	7	18	7	9	13	10
$10,000 and over	10	13	26	7	18	25	14
Total	100	100	100	100	100	100	100

Table 11.--Criteria for establishing relative income deprivation based on household size and 1965 income 1/

Household income in 1965	Household size-income class					
	1--Seriously deprived	2--Deprived	3--Marginal	4--Probably not deprived	5--Definitely not deprived	6--(Other) (Undetermined) 2/
	Number of persons in household					
0 - $999..........	2 or more	1	---	---	---	---
$1,000 - $1,999...	5 or more	2-4	1	---	---	---
$2,000 - $2,999...	9 or more	4-8	2 or 3	1	---	---
$3,000 - $4,999...	---	8 or more	4-7	2 or 3	1	---
$5,000 - $7,999...	---	---	9 or more	4-8	1-3	---
$7,500 - $9,999...	---	---	---	6 or more	1-5	---
$10,000 and over..	---	---	---	9 or more	1-8	---

1/ Income data based on earnings in 1965; survey was conducted during 1966.

2/ Either income or size class not reported.

Source: Developed jointly by agricultural economists and rural sociologists working on related studies in the following regions: Coastal Plain, South Carolina; Delta, Mississippi and Louisiana; Ozarks, Arkansas and Missouri. These categories grew out of the need to define income deprivation more precisely than that provided by income alone and for uniformity in making comparisons of data by regions. Herbert Hoover, and Bernal L. Green, Human Resources in the Ozark Region with Emphasis on the Poor, U.S. Dept. Agr., Agr. Econ. Rpt. No. 182, May 1970, p. 25.

Table 12.--Rural Ozark home purchasers using mortgage credit in 1960-66, median amounts of the mortgages, and loan-to-price ratios, by household size-income class, 1965

Household size-income classes, 1965	Homeowners using mortgage credit		Median size of loan	Loan-to-price ratio
	Number	Percent 1/	Dollars	Percent
Seriously deprived and deprived	23	37	3,000	62
Marginal	43	49	3,000	75
Probably not deprived	67	71	6,000	71
Definitely not deprived	93	76	7,000	74
Not reported	1	--	--	--
Total	227	62	5,500	72

1/ Percentage of homeowners in each class purchasing house and land in 1960-66 using mortgage borrowing.

Neither savings and loan associations nor Government agencies made many housing loans to the lower one-fourth of the rural households on the economic deprivation scale. These findings support those for low net incomes, as discussed in the preceeding section.

Educational Attainment of Homeowners

Household heads with 8 years or less of schooling accounted for 41 percent of the 227 homeowners purchasing a mortgaged house and land in 1960-66. Slightly over one-half of the purchasers with 8 years or less of schooling had borrowed money with a mortgage on the house and land (table 14). Seventy-two percent of homeowners with high school diplomas and 73 percent of homeowners with 4 years of college or more had used mortgage borrowing. The size of loans ran much higher among the better educated. The loan-to-price ratio, however, did not differ greatly among homeowners when classified by years of schooling.

The level of education does not seem to have any strong bearings on the ability of an individual to qualify for a loan among the various lenders except as education may be reflected in higher and more stable income and in greater ability to offer sufficient collateral to qualify for the larger loan needed for adequate modern housing (table 15). Banks, individuals, savings and loan associations, Government agencies, and others provided credit for homeowners with varying levels of schooling. Level of schooling did not seem to influence borrowers' choice of creditor.

Age of Home Purchasers

An outstanding characteristic of the Ozark population is the advanced age of household heads. The median age of the 1,413 household heads studied in the overall survey was 55 years and about one-third were 65 years of age and older. 7/

7/ Herbert Hoover and Bernal L. Green. See Footnote 4.

Table 13.--Major sources of home mortgage credit for rural Ozark home purchasers, 1960-66, by household size-income class, 1965

Household size-income classes	Conventional lenders				Government agencies		
	Commercial bank	Individual	Savings and loan assoc.	Other	Veterans Administration	Farmers Home Administration	Total
	Number of loans						
Seriously deprived and deprived.......	8	7	1	8	0	0	24
Marginal.............	15	12	2	7	5	2	43
Probably not deprived	30	9	9	14	2	3	67
Definitely not deprived.............	28	18	26	14	4	3	93
Total...........	81	46	38	43	11	8	227
	Percent						
Seriously deprived and deprived.......	10	15	3	18	0	0	11
Marginal.............	18	26	5	16	45	25	19
Probably not deprived	37	20	24	3	18	38	29
Definitely not deprived.............	35	39	68	3	36	38	41
Total...........	100	100	100	100	100	100	100

Table 14.--Rural Ozark home purchasers using mortgage credit in 1960-66, median amount of mortgage by educational attainment of household head

Years of schooling	Homeowners using mortgage credit		Median size of loan	Loan-to-price ratio
	Number	Percent 1/	Dollars	Percent
Less than 8 years	93	52	3,500	75
9 to 12 years	99	72	6,200	70
College, 1 to 3 years	19	66	8,500	78
College, 4 years or more	16	73	9,500	67
Total	227	62	5,500	72

1/ Percentage of homeowners in the class using mortgage financing.

Among the 227 home purchasers who had obtained a loan secured by a mortgage on house and land during 1960-66, age was a major factor in propensity to obtain and use home mortgage credit. More than nine of every 10 home buyers who were 25 years of age and under had obtained mortgage financing (table 16). The percentage who had used mortgage financing to purchase their current residence declined as age increased, falling to 30 percent and under for household heads 65 years and older.

The median size of loan for the 14 homeowners in the youngest age group--under 25 years old--was $4,750, compared with $7,250 among homeowners 35-44 years old. The median size of loan dropped at age levels above 35-44 years, declining to less than $3,250 for homeowners 65 and over. Loan-to-price ratios were highest for household heads under 35 years of age.

Homeowners under 25 years of age had borrowed primarily from banks. Savings and loan associations had made only one of their 38 loans to a household head under 25 (table 17).

PRINCIPAL LENDERS PROVIDING HOME MORTGAGE CREDIT TO RURAL HOMEOWNERS IN THE REGION, 1960-66

Home purchasers in 1960-66 with mortgages were asked: Who furnished the loan funds to purchase or build this unit? A wide selection of lenders, including most of the traditional sources of mortgage credit and Government agencies, were mentioned as sources of home mortgage credit. Principal lenders were separated into conventional lenders and Government agencies (table 18). Government agencies provided 9 percent of the loans in 1960-66, while 91 percent were provided by conventional lenders, primarily local banks, individuals, and building and loan associations.

A study of rural housing at the national level showed that "only 10 percent of the new homes built in rural areas from 1960 to 1966 were constructed as a result of a direct or insured loan made by a Federal agency or a Federal land bank. Only about 6 percent of the home repairs were

Table 15.--Major sources of mortgage credit for rural Ozark home purchasers in 1960-66, by years of schooling

Years of schooling	Conventional lenders				Government agencies		
	Commercial bank	Individual	Savings and loan assoc.	Other	Veterans Administration	Farmers Home Administration	Total
	Number of loans						
Less than 8 years....	38	25	10	15	2	3	93
9 to 12 years........	36	14	20	21	5	3	99
College, 1 to 3 years	5	4	3	4	1	2	19
College, 4 years or more...........	2	3	5	3	3	0	16
Total..........	81	46	38	43	11	8	227
	Percent						
Less than 8 years....	47	54	26	34	18	38	41
9 to 12 years........	44	30	53	49	45	38	43
College, 1 to 3 years	6	9	8	9	9	25	8
College, 4 years or more...........	2	7	13	7	27	0	7
Total..........	100	100	100	100	100	100	100

Table 16.--Rural Ozark home purchasers using mortgage credit in 1960-66, median amounts of mortgages, and loan to-price ratios, by age of household head

Age of household head	Homeowners using mortgage credit		Median size of loan	Loan-to-price ratio
	Number	Percent 1/	Dollars	Percent
Under 25 years old	14	93	4,750	77
25-34	58	81	6,050	86
35-44	60	77	7,250	66
45-44	46	70	6,150	69
55-64	29	56	3,500	68
65-74	18	30	3,250	72
75 and over	2	8	2,135	37
Total	227	62	5,500	72

1/ Percentage of homeowners in the class using mortgage financing.

financed with the help of a Federal agency." 8/ Since the data in that study include Federal land banks and do not include home improvement loans unless secured by a mortgage on the house and land, it appears that Federal agencies have been about as active in the region as in all U.S. rural areas in making possible the construction of new rural homes through loans.

Conventional Lenders

Of the 207 loans made by conventional lenders, 165 (80 percent) were made either by a commercial bank, an individual, or a savings and loan association. Mutual savings banks, life insurance companies, and mortgage brokers, which are highly important sources of long-term mortgage credit in many parts of the Nation, appear as relatively minor sources of credit in the rural areas of the Ozark region.

Commercial Banks

Rural people in the region have turned most often to a nearby, familiar, and generally long-established local bank when in need of a loan (table 19). The median bank loan was for $4,200, the smallest of any loans by the major lenders. However, banks furnished a high percentage of the loans made to low-income families who could qualify only for small loans, and to families acquiring low-valued property.

Individuals

Individuals ranked second only to commercial banks as a source of mortgage credit in the rural parts of the region. Forty-six respondents, 20 percent of the total number borrowing money in 1960-66, borrowed from an individual.

8/ Ronald Bird and others. See footnote 2.

Table 17.--Major sources of home mortgage credit for rural Ozark home purchasers in 1960-66, by age of household head, 1966

Age of household head, 1966	Conventional lenders: Commercial bank	Conventional lenders: Individual	Conventional lenders: Savings and loan assoc.	Conventional lenders: Other	Government agencies: Veterans Administration	Government agencies: Farmers Home Administration	Total
	Number of loans						
Under 25 years old	7	1	1	4	0	1	14
25-34	21	8	15	12	1	1	58
35-44	19	9	10	14	5	3	60
45-54	16	13	5	6	4	2	46
55-64	9	9	6	3	1	1	29
65-74	7	6	1	4	0	0	18
75 and over	2	0	0	0	0	0	2
Total	81	46	38	43	11	8	227
	Percent						
Under 25 years old	9	2	3	9	0	13	6
25-34	26	17	39	28	9	13	26
35-44	23	20	26	33	45	38	26
45-54	20	28	13	14	36	25	20
55-64	11	20	16	7	9	13	13
65-74	9	13	3	9	0	0	8
75 and over	2	0	--	0	0	0	1
Total	100	100	100	100	100	100	100

Table 18.--Number and percentage of home mortgage loans made to rural Ozark home purchasers in 1960-66, by type of lender

Type of lenders	Rural household respondents	Proportion of the loans provided
	Number	Percent
Principal conventional lenders		
Commercial banks	81	36
Individuals	46	20
Savings and loan associations	38	17
Life insurance companies	5	2
Other	1/ 37	16
Not reported	1	--
Subtotal	208	91
Loans from Government agencies:		
Veterans Administration	11	5
Farmers Home Administration	8	4
Subtotal	19	9
Total	227	100

1/ Includes 7 loans from Federal land bank associations, 2 from mutual savings banks, 1 from a mortgage broker, and the remainder from an assortment of lenders such as finance companies and dealers in mobile and prefabricated homes.

Table 19.--Number of borrowers and median amounts of loans for rural Ozark home purchasers in 1960-66, by principal lenders

Principal lender	Rural home-owners with a mortgage	Median amount of loan
	Number	Dollars
Conventional lenders		
Commercial banks	81	4,200
Individuals	46	4,375
Savings and loan associations	38	6,850
Life insurance companies	5	3,500
Other 1/	37	6,472
Subtotal	207	4,900
Government agencies, direct loans:		
Farmers Home Administration	11	10,350
Veterans Administration	8	14,000
Subtotal	19	12,000
Total	226	5,500

1/ Includes a wide selection of lenders such as mortgage brokers, mutual savings banks, and the Federal land bank associations.

The median amount of the loans made by individuals in the region was $4,375--slightly larger than that made by commercial banks. Individual loans and bank loans are smaller than loans made by some other types of lenders, especially Government agencies.

Little is known about the role of individuals as lenders and their contribution to the supply of home mortgage credit. Such information would be difficult to obtain. Many individual loans probably represent second mortgages or borrowing from relatives. Some loans involve purchases of real estate where the owner carries the loan and receives payment over several years of "contract payments"; others involve lending of funds by individuals for investment purposes. Interest rates usually are reasonably competitive with local banks and other lenders in the area. In some cases, a borrower turns to an individual as a last resort when the property or the borrower cannot meet requirements for a loan from a bank or other lending institution.

Savings and Loan Associations

Home mortgage credit is a specialty of savings and loan associations (sometimes referred to as thrift institutions). This type of lending institution has grown phenomenally since the end of World War II and is continuing to expand. As of the end of December 1968, savings and loan associations in the Nation held vast assets, most of which were invested in home real estate loans. The associations provided 44 percent of the funds used in 1968 by home buyers and builders. These institutions held more than one-third of the $397.5 billion worth of all residential mortgage debt and 44 percent of mortgage debt on nonfarm, one-to-four-family dwellings at the end of fiscal 1968. 9/

In this study area, savings and loan associations held 38 mortgages, or only 17 percent of the total number of loans made by conventional lenders (table 18). The median size of the loans was $6,850, considerably higher than bank or individual loans.

A study in a non-Ozark part of Missouri found that savings and loan associations usually were located in larger towns and cities. There were only 23 urban centers in the Ozark Region with populations of 10,000 and over in 1960. Their lending activities were centered mainly in urban or fringe areas and within county seat towns in the rural counties. 10/

Data in the present study showed that savings and loan associations made only one loan to a respondent classified as a farmer, although farmers constituted one-fourth of all borrowers. Only 5 percent of the loans made by savings and loan associations were to families with less than $4,000 annual family income.

Families who obtained larger and longer term loans from savings and loan associations had incomes well above the median in the region.

9/ United States Savings and Loan League, Savings and Loan Fact Book, 1969, 221 N. LaSalle St., Chicago, Ill.

10/ Dorwin Williams, Lawrence A. Jones, and Frank Miller, Financing Rural Homes in Missouri, Mo. Agr. Expt. Sta. Bul. 857, Apr. 1964.

Other Conventional Lenders

Federal land banks, mutual savings banks, life insurance companies, mortgage brokers, finance companies, dealers in mobile and prefabricated housing, and other lenders accounted for 37 loans, or 16 percent of the respondents borrowing from all lenders in 1960-66.

The limited activity in Ozark savings and loan associations relative to those in the Nation, coupled with the comparatively minor role of mutual savings banks, life insurance companies, and mortgage brokers, highlights a major deficiency in the home mortgage credit supply for rural families in the region. These types of lenders generally have a major role in supplying long-term mortgage financing, especially in the more prosperous areas of the Nation. An area with little access to these major lenders is handicapped. Many of these institutions draw on large pools of capital and bring about desirable flows of mortgage funds from surplus to deficit areas. On the other hand, local banks, individuals, and many building and loan associations--the major lenders in the region--depend primarily on local savings deposits.

In a low-income region, local savings often are not large enough to meet the total need for borrowed capital. One indication of the amount of savings is the per capita bank deposits. On June 30, 1964, 2 years before the survey data for this study were obtained, per capita bank deposits for the Ozark Region amounted to $844, compared with $1,844 for the United States, or less than one-half of the national average. 11/ Then, too, managers of these limited loanable funds often have other investment opportunities, within and outside the region. These other investments are likely to be more attractive than a long-term rural mortgage loan which ties up funds for long periods of time and may be diffucult to make, expensive to service, and risky.

Government Programs

Direct Loans

Direct Government loans made in the rural areas of the region were two to three times the amount loaned by the various conventional lenders. Also, the loan-to-price ratio was much higher. Government loans for purchasing or constructing a home are generally long-term loans, 30 years or more, and contain a number of provisions that are intended to make the loan less of a risk from the lender's point of view and at the same time to assure that the borrower obtains a house that meets at least minimum quality standards for health, sanitation, and comfort. This generally means that loans for purchasing or constructing a house of modern design will have to be relatively large.

The two Government agencies listed as sources of direct loans were the Veterans Administration and the Farmers Home Administration. Only 19 homeowners--about 9 percent of those purchasing a home in 1960-66 and placing a mortgage on their property--said that a Government agency provided the funds

---

11/ Ozark Regional Commission, Ozark Region An Opportunity for Growth, Field Office, Mart. Bldg., Little Rock, Ark., 1967.

directly. Eleven homeowners reported borrowing directly from the Farmers Home Administration and eight borrowed from the Veterans Administration. In the early phase of the Farmers Home Administration program, loanable funds originated from outside the region through Federal appropriations; funds for these direct Government loans were limited by the amount of appropriations and the supply was not always adequate to meet the expressed needs.

Federal land bank associations, listed under "other," were reported by seven respondents. These cooperative associations, composed of farmers, make long-term loans for the purchase and improvement of farm real estate. 12/

Insured Loans

Government agencies have sought to assist potential buyers of residential housing in obtaining greater access to loanable funds by guaranteeing mortgages negotiated under Federal programs. Respondents were asked whether their conventional loans were insured by the Veterans Administration, the Farmers Home Administration, or the Federal Housing Administration. Responses to this question suggested that borrowers did not always clearly distinguish between a direct Government loan and a Government insured or guaranteed loan. Only three loans could be clearly identified as Government guaranteed or insured loans. A commercial bank made two of them. The third insured loan was obtained from a building and loan association and was guaranteed by the Veterans Administration.

Government-underwritten loans require that the Government's interest be protected. The prospective buyer must, alone or with assistance, find a lender willing to make the loan. More important, the buyer must be able to qualify by meeting financially sound credit standards, and the property must meet quality requirements. These guaranteed programs have experienced difficulties in making the maximum impact intended, particularly in rural areas.

Hamlin found in a study of rural nonfarm housing in the United States in 1960 that lenders in special rural counties 13/ apparently preferred making conventional loans with relatively higher downpayments, shorter terms to maturity, and higher interest rates than Government-backed loans. 14/ Conventional loans to home buyers in rural counties were reported as being much less advantageous in their terms to homeowners than were similar loans in the entire country. Government-guaranteed loans made in rural counties were reported as tending to be similar to those made in urban counties so that rural

---

12/ The Federal land banks, established in 1917 by the Federal Farm Loan Act to provide a dependable source of farm mortgage credit to farmers, are now completely owned by farmer-borrowers. For that reason, Federal land banks were not listed as a Federal agency.

13/ Special rural counties were defined to include all counties in which the largest town did not exceed 2,500 population in 1960, as well as all counties which contained one town or part of one town (but no more than one) in the population size group 2,500 to 4,999.

14/ Edmund T. Hamlin, Financing of Rural Nonfarm Housing in the United States, U.S. Dept. Agr., Econ. Res. Serv., Farm Prod. Econ. Div., unnumbered publication, Nov. 1970.

borrowers who did obtain such loans enjoyed generally advantageous terms and conditions, including lower downpayments, longer maturities, and lower interest rates. Other studies have shown the two major reasons for rejecting loan applications are insufficient income and poor credit risk. Also, Hamlin reported that shortage of loanable funds is often cited as a major reason for rejecting loan applications. This applies both to conventional lenders and to Government agencies. Potential sources of home mortgage credit that may not use the Government mortgage guarantee programs often make the point that such loans involve too much "red tape" and too low an interest rate. The low interest rate leads to the use of mortgage discount "points" to make the interest rates competitive.

Widely scattered rural loans are more difficult to initiate and service. Small banks and savings and loan institutions serving the rural areas have alternative investment opportunities and limited funds. Thus, they may be reluctant to invest in rural housing and to tie up investment funds for long periods under Government-guaranteed programs. Perhaps the greatest single difficulty is that sound lending practices require that borrowers have sufficient income to pay operating and family living expenses and still be able to meet monthly payments or debts. And in a low-income area, such as the Ozark Region, a high percentage of the families who need better housing simply cannot qualify under usual lending standards for a loan even if the supply of long-term, low-equity, loanable funds is plentiful.

CHARACTERISTICS OF RURAL HOME MORTGAGE CREDIT IN THE REGION

Loan-to-Purchase-Price Ratios

The amount of the downpayment that a prospective home purchaser must make is often a critical factor in determining whether an otherwise qualified loan applicant can purchase a home, even though it is to be largely financed by mortgage borrowing. A large downpayment provides greater security for the lender. But many families have difficulties obtaining the cash needed to cover a large downpayment as well as closing costs. This is particularly true of younger and low-income families. To overcome this problem, reduction in the amounts of downpayments and the inclusion of closing costs as part of the loan are now common features of Government programs. In this study, borrowers with the lowest priced homes had the highest loan-to-purchase-price ratios--99 percent, compared with 65 percent and higher for families with higher priced homes (table 20). The loan-to-price ratio of 72 percent for all 227 borrowers as a group indicates a sizable equity requirement for a low-income area. Banks loaned only 63 percent of the purchase price, but these were for lower valued homes (table 21).

Data in this study show, also, that the loan-to-price ratios vary considerably among types of lenders. Commercial banks showed the lowest and Government agencies showed the highest loan-to-price ratios. But ratios for the group of Government borrowers were well below what these agencies are authorized to use.

Table 20.--Number of rural home purchasers in 1960-66 reporting original purchase price, median size of loan, and loan-to-price ratios by the original purchase price

Original purchase price	Homeowners reporting original purchase price	Median amount of mortgage	Loan-to-purchase-price ratios 1/
	Number	Dollars	Percent
Less than $2,000	18	1,250	99
$2,000 to $3,999	32	2,750	84
$4,000 to $5,999	34	3,570	77
$6,000 to $7,999	32	5,500	79
$8,000 to $8,999	28	7,000	77
$10,000 to $10,999	19	8,000	72
$12,000 to $13,999	16	10,000	78
$14,000 to $15,999	13	12,000	73
$16,000 to $17,999	8	11,500	68
$18,000 and over	27	15,000	65
Total	227	5,500	72

1/ Sum of the loans divided by the sum of the original purchase prices for each class in the distribution.

Table 21.--Loan-to-purchase ratios for rural Ozark homeowners by type of lender, 1960-66 purchase price

Type of lender	Loans	Loan-to-purchase-price ratio 1/
	Number	Percent
Conventional lenders:		
Commercial banks	81	63
Insurance companies	5	82
Individuals	46	78
Savings and loan associations	38	73
Other	37	74
Subtotal	208	77
Government programs:		
Veterans Administration	8	80
Farmers Home Administration	11	86
Total	227	72

1/ Sum of the loans divided by the sum of the original purchase prices for each class in the distribution.

Length of Loan Term

The terms to maturity of the loans were not determined for each borrower in the rural areas of the Ozark Region, but it is assumed that commercial bank loans were for relatively short periods. Housing studies in other parts of the country have concluded that while commercial banks handle some mortgage loans, they prefer short-term loans of not more than 5 years to long-term mortgage loans. 15/

Amount of the Original Mortgage

Respondents were asked the amount of their loan and the unpaid balance. As mentioned previously, 62 percent of the homeowners purchasing house and land in 1960-66 reported having used mortgage financing; many of the loans, however, were small (table 22). Fourteen percent had borrowed less than $2,000; 34 percent had borrowed less than $4,000; only 22 percent had borrowed more than $10,000. The median loan for the 227 respondents was $5,500. The small amounts borrowed reflect, among other things, the low value of much rural housing and land, the low incomes from which to make payments, and a relatively low loan-to-price ratio on the part of some of the lenders. They may reflect also a reluctance on the part of some borrowers, particularly older people, to incur what they consider to be excessive debt. Whatever the reasons, half of the loans were of a size commonly needed to make housing repairs or improvements rather than to buy an adequate new home. 16/

Mortgage Debt Outstanding

Information on the current status of the loans was acquired from 217 borrowers who obtained their loans in 1960-66. Seventeen of those borrowing had already paid off the loans. Ten respondents did not supply the information.

Proportions of the dollar amounts of the loans still owed at the time of the study are shown in table 22. Borrowers who had originally borrowed less than $6,000 still owed 70 percent or less of the original amount of the mortgage. In comparison, the 22 percent of the respondents with original loans of $10,000 and over still owed 85 percent of the original amount. This suggests that the smaller loans may have called for a shorter period of repayment.

Amount of Monthly Mortgage Payments

Of the 200 borrowers reporting the size of monthly payments being made on their loans in 1966, 6 percent were paying less than $30 and 69 percent paid $30 to $89. Only 4 percent paid as much as $150 per month (table 23).

In view of the size of the scheduled monthly payments, it does not seem likely that they would be burdensome for many of the borrowers. However, whether they were would depend on the borrower's current income and on the extent of his other obligations. One of the best indicators of whether a monthly payment is excessive is the percentage of a household's income required to make monthly mortgage payments.

15/ Robert L. Sargent, Jack R. Davidson, and Lawrence A. Jones, *Availability of Rural Housing Credit in Montana*, Mont. Expt. Sta. Bul. 586, June 1964.

16/ An estimated $4,650 would be required to add 2 bedrooms, a bathroom, a drilled well, hot and cold running water, bathroom fixtures, septic tank, and a gas circulating heater. The 22 percent borrowing $10,000 and up would be in the range required to purchase or construct adequate permanent housing.

Table 22.--Number and percentage of Ozark home purchasers 1960-66 borrowing funds secured by a mortgage and percentage of the loan unpaid, by the amount of the original mortgage

Amount of the original mortgage	Borrowers		Proportion of the original loan still owed
	Number	Percent	Percent
Less than $2,000	32	14	70
$2,000 to $3,999	45	20	58
$4,000 to $5,999	42	18	70
$6,000 to $7,999	36	16	77
$8,000 to $9,999	21	9	83
$10,000 to $11,999	51	22	85
Total	227	100	79

Table 23.--Distribution of Ozark home purchasers by amount of monthly mortgage payments, 1960-66

Amount of monthly mortgage payments	Homeowners making mortgage payments	Proportion of homeowners in each class
	Number	Percent
Less than $29	12	6
$30 to $59	74	37
$60 to $89	65	32
$90 to $119	30	15
$120 to $149	10	5
$150 and over	9	4
Total	200 1/	100

1/ 17 of the respondents had paid off the mortgage and 10 did not provide usable information.

Ratios of Mortgage Payments to Monthly Income

The six homeowners with less than $100 monthly income spent a high 52 percent of their income to meet mortgage payments (table 24). It is not known whether these high payments were required by the lender or were partly voluntary. All families for which data are available spent only 14 percent of their monthly income on mortgage payments. Families whose monthly incomes were $400 to $500, and who were more likely to have adequate housing, spent 17 percent.

Many of the monthly payments did not include insurance or real estate taxes and may not have included interest. Other household expenses, such as electricity, heating fuels, water, and sewage, push the cost for housing up and substantially increase the percentage of income spent on housing. Federal housing legislation assumes that a low-to moderate-income family can afford to spend as much as 20 percent of family income for housing payments, including principal, interest, taxes, and insurance.

Table 24.--Monthly mortgage payments and the percentage payments are of monthly income for rural Ozark homeowners by net family income, 1965

Net monthly family income 1/	Loans		Monthly mortgage payments	Ratio of monthly mortgage payments to monthly income
	Number	Percent	Dollars	Percent
Less than $100	6	3.0	37	52
$100 to $199	10	5.0	41	27
$200 to $299	23	11.5	40	16
$300 to $399	26	13.0	59	17
$400 to $499	36	18.0	72	17
$500 and over	99	49.5	86	13
Total	200	100.0	71	14

1/ Calculated by dividing the sum of net annual family income by 12.

A LOOK AHEAD

Findings indicate that a twofold approach may be necessary in solving housing problems in the Ozark Region. Long-range goals must include upgrading household income and improving educational attainment levels in the region. Welfare reform plans under consideration could put a floor under family income and help eliminate some of the problems of inadequate housing occupied by the aged, disabled, and unemployed. Increasing emphasis on education, job opportunities, and upgrading living standards will bring about a citizenry more able to choose and use available credit without public assistance.

In the short run, housing can best be upgraded by easing credit terms. Lenders that are mainly linked to urban markets should be encouraged to enter the rural market, and Government lending agencies should expand their activities. Local banks have provided credit in many cases, but large institutional lenders are needed as well.